

Audit

Report



OFFICE OF THE INSPECTOR GENERAL

**CONTRACTOR RECOMMENDATIONS FOR
APACHE HELICOPTER SPARES PROVISIONING**

Report Number 91-104

June 24, 1991

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Department of Defense

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ABE00-10-3008

The following acronyms are used in this report:

AMC.....	Army Materiel Command
AMCCOM.....	Armament, Munitions and Chemicals Command
ASD (P&L).....	Assistant Secretary of Defense (Production and Logistics)
AVSCOM.....	Aviation Systems Command
GAO.....	General Accounting Office
PPG.....	Provisioning Policy Group



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

June 24, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL MANAGEMENT)

SUBJECT: Report on the Audit of Contractor Recommendations for Apache Helicopter Spares Provisioning (Report No. 91-104)

We are providing this final report for your information and use. Comments on a draft of this report were considered in preparing the final report. The audit was requested by the Office of the Assistant Secretary of Defense (Production and Logistics), Provisioning Policy Group to assist the Group in its review of the provisioning process within DoD. We performed the audit from May through October 1990. The audit objective was to determine if the Army was receiving adequate and timely data on provisioning of spares from the prime contractor to serve as a sound basis for initial purchase of spares for the Apache helicopter. We also determined if the Army had effective internal control procedures in place to review and evaluate the quality of contractor estimates and forecasting data before approving procurement of the initial quantities. This is the first of three planned audits to evaluate contractor recommendations for DoD provisioning. The two subsequent audits will evaluate provisioning for the F-16 (Air Force) and the F/A-18 (Navy) aircraft.

The audit showed that Army Materiel Command (AMC) had significantly over- and under-procured spares in provisioning for the Apache helicopter. AMC did not have internal control procedures to ensure that contractor recommendations for spares provisioning were properly evaluated for adequacy and timeliness. Also, AMC procedures did not require retention of pertinent documentation so that post-evaluation of spares provisioning could be made and future provisioning of new systems could be improved.

A draft of this report was provided to the addressees for comments on March 18, 1991. Comments were received from the Director of Supply and Maintenance, Office of the Deputy Chief of Staff for Logistics, Department of the Army, on June 5, 1991. Part IV of this report contains the complete text of the Army's comments.

The Director of Supply and Maintenance, Office of the Deputy Chief of Staff for Logistics, Department of the Army, concurred with the finding and recommendation; however, the Army did not clearly state what action was planned and did not provide the

estimated completion date of planned action. We ask that the Deputy Chief of Staff for Logistics provide a description of corrective action taken for the recommendation and provide the estimated completion date of planned action in responding to the final report by August 23, 1991.

This report identifies no quantifiable potential monetary benefits. A summary of the other benefits resulting from this audit is in Appendix A.

The courtesies extended to the staff during the audit are appreciated. If you have any questions on this audit, please contact Mr. James L. Koloshey at (703) 614-6225 (DSN 224-6225) or Mr. Charles E. Sanders at (703) 614-6219 (DSN 224-6219). The planned distribution of this report is listed in Appendix C.



Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army

Office of the Inspector General, DoD

AUDIT REPORT NO. 91-104
(Project No. OLA-0025.01)

June 24, 1991

CONTRACTOR RECOMMENDATIONS FOR APACHE HELICOPTER
SPARES PROVISIONING

EXECUTIVE SUMMARY

Introduction. Provisioning is the management process of determining and acquiring support items necessary to initially operate and maintain an end item such as an aircraft. For provisioning of spares, the Army Materiel Command (AMC) required its contractors to recommend the items needed for initial support of a given end item and determine whether items were already stocked by DoD or were new candidates for procurement. Contractors were also required to provide predictions of maintenance factors and other management data for development of spares requirements. Army Commodity Support Commands used contractor recommendations to determine quantities of parts to be procured for new systems. Initial and follow-on provisioning of spare and repair parts for the Army's Apache helicopter totaled about \$500 million for FY 1985 through FY 1990.

Objective. The audit objective was to determine if the Army was receiving adequate and timely data on provisioning of spares from contractors to serve as a sound basis for initial purchase of parts for new weapons systems. We also determined the effectiveness of internal control procedures in place to review and evaluate the quality of contractor estimates and forecasting data before approving procurement of the initial quantities. To accomplish the audit within available resources and a reasonable period, the objective was narrowed to a specific weapons system - the Apache helicopter.

Audit Results. The AMC has significantly over- and under-procured spares for provisioning of the Apache helicopter. The AMC did not have internal controls to ensure that timely and reliable recommendations were received from contractors for spares provisioning. Also, AMC procedures did not require retention of pertinent documentation so that post-evaluations of spares provisioning could be made. This condition was considered a material internal control weakness. In the absence of pertinent documentation for requirements determinations, reasons for inappropriate procurements for the Apache helicopter cannot

be determined so that future provisioning for new systems can be improved. The details on this condition are described in the finding, and the details on our assessment of internal controls are in Part I, page 6.

Potential Benefits of Audit. The audit did not disclose quantifiable monetary benefits. However, recommended improvements in the provisioning process should result in more accurate procurements of spares in future provisioning of new systems. The potential benefits of audit are summarized in Appendix A.

Summary of Recommendation. We recommended that procedures be established to provide for retention of documentation that portrays how contractor and Army factors were evaluated and used in determining spares provisioning requirements for at least high dollar items.

Management Comments. The Army concurred with the finding and recommendation. We request that the Army provide its planned action and completion date by August 23, 1991. Comments are further discussed in Part II, and the complete text of Army's comments is in Part IV of this report.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, (703) 614-6302.

PART I: INTRODUCTION

Background

Provisioning is the management process of determining and acquiring the range and quantity of support items necessary to initially operate and maintain an end item such as an aircraft, tank, or ship for an initial period of service. Support items are comprised of spares, repair parts, tools, test equipment, and sundry materials. Primary Defense guidance for provisioning is contained in DoD Directive 4140.40, "Provisioning of End Items of Materiel," June 28, 1983, and DoD Instruction 4140.42, "Determination of Requirements for Spares and Repair Parts Through the Demand Development Period," July 28, 1987.

The initial period of service for a new end item (that is, weapons system) is usually 2 years after the initial operational capability has been established for the system. At the beginning of the support period, spares provisioning requirements are primarily based on contractor identifications of items to be stocked and forecasts of maintenance and other usage factors. The Commodity Support Commands should review and evaluate the quality of the contractor estimates and forecasting data before approving procurement of the initial quantities. Follow-on provisioning requirements should be based on a combination of forecasted and actual usage during the initial support period. By the end of the support period, follow-on provisioning requirements should be based solely on actual usage.

The audit was requested by the Assistant Secretary of Defense (Production and Logistics) [ASD (P&L)], Provisioning Policy Group (PPG) to assist the PPG in its continuing review of the provisioning process within DoD. To evaluate the reliability of contractor provisioning recommendations, we, along with the PPG, selected for review three aircraft systems: the Army's Apache helicopter (AH-64), the Air Force's Fighting Falcon (F-16), and the Navy's Hornet (F/A-18) aircraft. The PPG will consider our audit results for these systems in formulating new provisioning policy for DoD. This audit, the first in a series of three, is on our review of the Apache helicopter spares provisioning. The primary mission of the Apache helicopter is to find and destroy tanks and other targets with its laser-guided Hellfire missile, its 30mm gun, or its 2.75-inch rockets. The Army plans to procure 807 Apache helicopters, of which 600 have been delivered. Initial and follow-on provisioning of spare and repair parts for the Apache helicopter has totaled about \$500 million for FY 1985 through FY 1990.

Objective

Our overall audit objective was to determine if the Army was receiving adequate and timely data on provisioning of spares from contractors to serve as a sound basis for initial purchase of spares for new weapons systems. We also determined if the Army had effective internal control procedures in place to review and evaluate the quality of contractor estimates and forecasting data before approving procurement of the initial quantities. To accomplish the audit within available resources and a reasonable period, the objective was narrowed to a specific weapons system - the Apache helicopter.

Scope

To accomplish the audit objective, we evaluated Army Materiel Command's (AMC) policies regarding the solicitation, review, and verification of contractor recommendations for initial provisioning of spares for the Apache helicopter. (We limited our review to spares, which comprise the majority [dollar value] of provisioned items.) We selected spares initially procured for the Apache helicopter that were managed by Aviation Systems Command (AVSCOM) and Armament, Munitions, and Chemicals Command (AMCCOM) to evaluate the adequacy of contractor recommendations for provisioning of spares. Our sample of spares was randomly selected from the procurement history records as of June 1990. The spares were unique to the Apache helicopter and initially procured from McDonnell Douglas Helicopter Corporation, the prime contractor.

We reviewed current supply management studies at the time of our audit to determine whether items on hand and due-in quantities were significantly over or under the requirements objective (the maximum amount of assets authorized on hand and on order for an item at the wholesale level). We were unable to validate the quantity computed as the requirements objective due to lack of data.

Our audit scope was limited because of incomplete historical information regarding provisioning and procurement requirements for the Apache helicopter. Also, contractor provisioning estimates were not retained by AVSCOM, AMCCOM, or the contractor. Other factors, such as aircraft densities, used in determining provisioning and procurement requirements were not retained.

This economy and efficiency audit was made from May through October 1990 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly, included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix B.

Internal Controls

We evaluated AMC policies and procedures to determine if AMC had properly prescribed internal controls to ensure that contractor recommendations for spares provisioning were received and reviewed in a timely and systematic manner. Specifically, we determined if AMC directives provided criteria for timely acceptance or revision of contractor recommendations, required Support Commands to justify revisions of the recommendations, and provided for retention of documentation regarding receipt and modification of contractor recommendations. Also, we determined if AMC directives provided for post-evaluation of provisioning so that reliability of contractor recommendations could be evaluated. Controls were not in place to ensure that AMC adequately reviewed contractor recommendations and retained review documentation. The recommendation in this report, if implemented, will assist in correcting this weakness. No quantifiable monetary benefits will be realized from implementing this recommendation. A copy of the final report will be provided to the senior official responsible for internal controls within the Army.

Prior Audits and Other Reviews

Prior audits have not focused on the timeliness and quality of contractor's estimates and forecasting data for initial provisioning of Army end items, but have indicated that contractor provisioning estimates were not always sound. DoDIG Quick-Reaction Report No. 90-050, "Requirements for Wholesale Inventories to Support the Target Acquisition Designation Sight/Pilot Night Vision Sensor System," March 23, 1990, stated that AVSCOM accepted unverified contractor estimates to develop procurement quantities for the System. As a result, procurement quantities were overstated by \$11.9 million. The General Accounting Office (GAO) also disclosed in its Report No. GAO/NSIAD-90-294, OSD Case No. 8311-B, "Apache Helicopter: Serious Logistical Support Problems Must Be Solved to Realize Combat Potential," October 1, 1990, that shortages of primary components were partially due to failures of the components not being forecasted by the contractor. The above reports did not make recommendations regarding contractor recommendations for spares provisioning.

In March 1989, the Under Secretary of Defense for Acquisition directed the ASD (P&L) to perform a comprehensive review of the provisioning process. The ASD (P&L) published its Provisioning and Process Review Study Report in May 1990. ASD (P&L) concluded that the Military Departments needed a more efficient provisioning process and recommended a plan to improve the process. The study did not specifically address the reliability of contractor recommendations for provisioning of spares.

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PART II - FINDING AND RECOMMENDATION

CONTRACTOR RECOMMENDATIONS FOR SPARES PROVISIONING

The Army Materiel Command (AMC) has incurred significant over- and under-procurements of spares for provisioning of the Apache helicopter. Our review of 180 line items of Apache helicopter unique spares showed that 84 (47 percent) line items had on hand and due-in assets that exceeded requirements by \$30 million. Conversely, requirements for another 18 (10 percent) line items were understated by \$22 million. Specific reasons for these variances could not be determined because AMC had not established internal control procedures to evaluate the timeliness and accuracy of contractor provisioning recommendations; moreover, AMC did not retain documentation in support of requirements determinations. As a result, AMC could not make post-evaluations of provisioning to ensure that management decisions that caused the over- and under-procurements for provisioning of the Apache helicopter would not be repeated with other weapons systems.

DISCUSSION OF DETAILS

Background

The initial support period for provisioning the Apache helicopter was from February 1, 1987, through January 31, 1989. McDonnell Douglas Helicopter Corporation provided the original provisioning recommendations for spares provisioning to various AMC Subordinate Commands: the Aviation Systems Command (AVSCOM); the Armament, Munitions, and Chemicals Command (AMCCOM); the Missile Command; and the Communications Electronics Command. AVSCOM and AMCCOM provided about 75 percent and 10 percent, respectively, of logistics support for the Apache Helicopter Program.

Review of Procurements for the Apache Helicopter

Our analysis showed that AVSCOM and AMCCOM had about \$52 million in significant excesses and shortages for 102 (57 percent) of the 180 line items that were procured in provisioning for the Apache helicopter. We considered an item to have significant excesses or shortages if net assets (on hand and due-in) were at least 100 percent more or at least 50 percent less than the requirements objective, or if the extended unit price of the quantity difference between net assets and requirements objective was \$100,000 or more. Also, the quantity difference between net assets and requirements objective had to exceed 10 units.

We could not determine the actual causes for over- and under-provisioning for all items because, as discussed in another section of this report, there were no AMC procedures regarding the evaluation of the contractor rationale, the basis for and timeliness of provisioning recommendations, and the retention of the data.

The following schedule portrays the excesses and shortages that we considered to be significant. The schedule shows the sample line item status at the time of the audit, which was after the initial support period.

	Number of Sample Items	Dollar Value of Quantities (Millions)			
		On-hand/ Due-In	Requirements Objective	Excess	Short
	84	\$123.5	\$ 93.5	\$30.0	---
	18	34.7	57.1	---	\$22.4
Totals	<u>102</u>	<u>\$158.2</u>	<u>\$150.6</u>	<u>\$30.0</u>	<u>\$22.4</u>

Over-Procurements. We attributed the over-procurements, in part, to forecasted demands that did not materialize. Of the 84 line items with excessive quantities, 36 had no demands (requisitions from operating units) during the 2-year initial support period. Of these 36 items, 22 also had no demands during the contractor logistics support period (March 1, 1984, through January 31, 1987) that preceded the Army's initial support period. For example, AVSCOM procured 98 strut assemblies, National Stock Number 1615-01-164-3788, in FY's 1985 and 1986, totaling about \$518,000. There were no demands for this item during either support period. We noted that there were eight issues made after the initial support period and that AVSCOM's current requirements objective for the item was 13. We concluded that 77 of the remaining 90 items, totaling \$407,000, were in excess of requirements.

One explanation for the lack of demand is that the Apache helicopter has not been operated as was anticipated at the time that provisioning requirements were determined. According to the GAO Report No. GAO/NSIAD-90-294, the Apache helicopter was to have an availability rate (fully mission capable) of 70 percent and aircraft would be flown in peacetime between 20 and 50 hours a month. GAO found that the Apache helicopter availability rate was 50 percent from January 1989 through April 1990. In addition, monthly flying hours per aircraft averaged about 13 hours, 35 percent less than minimum hours forecasted.

Under-Procurements. It appeared that provisioning quantities were understated because the items failed more frequently than the contractor had forecasted and other Army requirements factors did not offset the actual failure rates. For example, as of July 16, 1990, AVSCOM had a requirements objective of 153 main transmissions, totaling \$21.1 million, and had 103 items on hand and due-in, totaling \$14.2 million. This resulted in a shortage of 50 items, totaling \$6.9 million. Also, AVSCOM had a requirements objective of 835 pitch link assemblies, totaling about \$1,154,000, and had 474 items on hand and due-in, totaling \$655,000. This resulted in a shortage of 361 items, totaling \$499,000.

Internal Control Procedures

AMC did not establish controls and procedures to require timely receipt and retention of sufficient documentation needed to evaluate the effectiveness and efficiency of contractor provisioning recommendations. These controls would improve provisioning for new systems. AMC did not have procedures (written guidance) to provide for a timely and systematic review and validation of contractor recommendations for spares provisioning. As a result, the prime contractor was not required to provide the basis for predictions of maintenance factors and other usage data; the scope and depth of Army reviews of contractor provisioning recommendations were not prescribed; and reviewers of contractor provisioning recommendations were not required to document their evaluation results relative to accepting or modifying the contractor provisioning recommendations. Also, the extent to which contractor provisioning recommendations were used in determining procurement requirements for provisioned items was not documented.

There were also no procedures for post-evaluation of spares provisioning. Army Regulation 25-400-2, "Modern Army Record Keeping," October 15, 1986, provides that documentation be retained for 3 years. This limited time period precludes retention of most documentation in support of initial provisioning actions. For example, procurements of initial spares for some items were initiated in FY's 1983 and 1984. Review of contractor recommendations for provisioning occurred before the initial procurements. Further, during the initial support period (February 1, 1987, through January 31, 1989) about 2 years of actual parts usage experience would be needed to compare actual and forecasted requirements of the Army and the contractor. Therefore, to accomplish a post-evaluation of provisioning for the Apache helicopter in 1990, documentation for review of contractor recommendations and initial requirements determinations for procurement of spares generated before 1987 would have to be retained.

Conclusions

We believe that the majority of the excessive spares will eventually be used in continued operations of the Apache helicopter. In January 1991, AVSCOM advised us that excessive quantities for eight of the items reviewed, totaling \$14.5 million, were within the requirements objectives. This was due in part to new requirements for Operation Desert Shield/Storm.

In view of the magnitude of funds expended on procurement of provisioning items, we believe that post-evaluations of provisioning are warranted to preclude repetition of uneconomical and inefficient management decisions in determining procurement requirements. These actions will require retention of all pertinent provisioning documentation, beyond the current 3-year limit, for items with a high-dollar procurement cost. An audit trail must be maintained for receipt, evaluation, and disposition of contractor provisioning recommendations; computation of procurement quantities; and other related management decisions. We realize that this would entail some additional storage requirements. However, the potential for more accurate procurements in provisioning new weapons systems resulting from post evaluations of previous provisioning actions should more than offset the additional costs of retaining pertinent provisioning documentation.

In this report, we are making a recommendation that will improve the Army's internal control over the review and retention of provisioning documentation. We plan to make additional recommendations to improve the provisioning process after the completion of ongoing audits of spares provisioning by the Air Force and Navy. Additional recommendations will be presented in a summary report on spares provisioning to the ASD (P&L).

RECOMMENDATION FOR CORRECTIVE ACTION

We recommend that the Assistant Secretary of the Army (Installations and Logistics) establish policy and procedures that provide for retention of documentation portraying how contractor recommendations and Army factors were evaluated and used in development of spares provisioning requirements for at least high dollar items.

MANAGEMENT COMMENTS AND AUDIT RESPONSE

The Director of Supply and Maintenance, Office of the Deputy Chief of Staff for Logistics, Department of the Army, concurred with the finding and recommendation. The Army stated, "Appropriate action will be taken to add specific disposition standards for provisioning records (Army Regulation 700-18) to The Modern Army Recordkeeping System (MARKS), Army Regulation 25-400-2." The complete text of management comments is in Part IV.

In response to the final report, we request that the Army identify the specific types of documents that will be retained and the disposition instructions. We also ask that the Army provide an estimated completion date.

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PART III: ADDITIONAL INFORMATION

- APPENDIX A - Summary of Potential Benefits of Audit
- APPENDIX B - Activities Visited or Contacted
- APPENDIX C - Report Distribution

APPENDIX A: SUMMARY OF POTENTIAL BENEFITS OF AUDIT

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and/or Type of Benefit</u>
Page 8	<u>Internal Control -</u> Provide an audit trail for post-evaluations of provisioning of new high-dollar spares and repair parts.	<u>Nondeterminable</u> Monetary benefits cannot be quantified. The Army can improve its provisioning process and, thereby reduce the risk of inappropriate procurements of spares.

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APPENDIX B: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office, Assistant Secretary of Defense (Production and Logistics), Washington, DC

Department of the Army

Deputy Chief of Staff for Logistics, Washington, DC
Headquarters, Army Materiel Command, Alexandria, VA
Aviation Systems Command, St. Louis, MO
Armament, Munitions, and Chemicals Command, Rock Island, IL

Other Activities

McDonnell Douglas Helicopter Corporation, Mesa, AZ

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APPENDIX C: REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Comptroller of the Department of Defense,

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Financial Management)
Auditor General, U.S. Army Audit Agency

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Studies Information Exchange

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office
NSIAD Technical Information Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Senate Ranking Minority Member, Committee on Armed Services
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Ranking Minority Member, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

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PART IV: MANAGEMENT COMMENTS

Department of the Army

COMMENTS OF THE DEPARTMENT OF THE ARMY



DEPARTMENT OF THE ARMY
OFFICE OF THE DEPUTY CHIEF OF STAFF FOR LOGISTICS
WASHINGTON, DC 20315-5000



DALO-SMP

29 May 1991

MEMORANDUM FOR

DEPUTY CHIEF OF STAFF FOR LOGISTICS *T 31 May 91*

DIRECTOR OF THE ARMY STANISLAW MORGAN MAJ GS-0208

ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS, LOGISTICS AND
ENVIRONMENT) *John*

FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING, FOLLOW-UP,
DEPARTMENT OF DEFENSE

SUBJECT: Report on the Audit of Contractor Recommendations for
Apache Helicopter Spares Provisioning (Project Number
OLA-0025.01), 13 Mar 91--INFORMATION MEMORANDUM

1. Reference is made to your memorandum, Logistics Support
Directorate, 13 Mar 91, subject as above, Tab A.
2. Concur. Appropriate action will be taken to add specific
disposition standards for provisioning records (Army Regulation
700-18) to The Modern Army Recordkeeping System (MAARS), Army
Regulation 25-400-2.

Encl

James W. Ball
JAMES W. BALL
Major General, GS
Director of Supply
and Maintenance

LT:
DALO-RMN
SAIG-PA
SARD-RPR
SAPA
SALL
AMCM-IA
SAFM-ROM

BILLIE W. TURNER
Assistant Director
for Supply Management

AMC(MSN), Concur. Mr. Nichols/274-9655 (by phone)
SALL, Concur. Mr. Crook/75727 (conference)

Mr. Stinson/46760

COMMENTS OF THE DEPARTMENT OF THE ARMY



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2800

TAB A

March 18, 1991

MEMORANDUM FOR ASSISTANT SECRETARY OF DEFENSE (PRODUCTION AND
LOGISTICS)
ASSISTANT SECRETARY OF THE ARMY (FINANCIAL
MANAGEMENT)

SUBJECT: Report on the Audit of Contractor Recommendations
for Apache Helicopter Spares Provisioning
(Project No. OLA-0025.01)

We are providing this draft report for your review and comments. The audit was requested by the Office of the Assistant Secretary of Defense (Production and Logistics), Provisioning Policy Group to assist the Group in its review of the provisioning process within DoD. We performed the audit from May through October 1990. The audit objective was to determine if the Army was receiving adequate and timely data on provisioning of spares from the prime contractor to serve as a sound basis for initial purchase of spares for the Apache helicopter. We also determined if the Army had effective internal control procedures in place to review and evaluate the quality of contractor estimates and forecasting data before approving procurement of the initial quantities. This is the first of three planned audits to evaluate contractor recommendations for DoD provisioning. The two subsequent audits will evaluate provisioning for the F-16 (Air Force) and the F/A-18 (Navy) aircraft.

The audit showed that Army Materiel Command (AMC) had significantly over- and under-procured spares in provisioning for the Apache helicopter. AMC did not have internal control procedures to ensure that contractor recommendations for spares provisioning were properly evaluated for adequacy and timeliness. Also, AMC procedures did not require retention of pertinent documentation so that post-evaluation of spares provisioning could be made and future provisioning of new systems could be improved.

We want to consider your comments in preparing the final report. In order that we may do this, please provide your comments on the finding and recommendation in this report. As required by DoD Directive 7650.3, your comments should indicate either concurrence or nonconcurrence with the finding and the recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for

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COMMENTS OF THE DEPARTMENT OF THE ARMY

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actions taken, and the estimated dates for completion of planned actions. If you nonconcur, please state your specific reasons. If appropriate, you may propose alternative methods for accomplishing desired improvements. This report identifies no quantifiable potential monetary benefits. A summary of the other benefits resulting from this audit is in Appendix A.

We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I. In order for your comments to be included in the final report, they must be received by May 20, 1991.

The courtesies extended to the staff during the audit are appreciated. If you have any questions on this audit, please contact Mr. James L. Koloshey at (703) 614-6225 (AUTOVON) 224-6225 or Mr. Charles E. Sanders at (703) 614-6219 (AUTOVON) 224-6219. We will give you a formal briefing on the results of the audit within 15 days of the date of this memorandum, should you desire it. The planned distribution of this report is listed in Appendix C.

Shelton R. Young

Shelton R. Young

Director
Logistics Support Directorate

Enclosure

cc:
Secretary of the Army

DRAFT AUDIT REPORT FOR OFFICIAL USE ONLY

LIST OF TEAM MEMBERS

Shelton R. Young, Director, Logistics Support Directorate
Gordon P. Nielsen, Deputy Director
James L. Koloshey, Program Director
Charles E. Sanders III, Project Manager
Debra E. Alford, Team Leader
Hewitt Q. McKinney, Team Leader
Victoria S. Dittrich, Auditor

INTERNET DOCUMENT INFORMATION FORM

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Inspector General, Department of Defense
400 Army Navy Drive (Room 801)
Arlington, VA 22202-2884

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